Financial woes of the Canada Pension Plan hold implications for physicians

Charlotte Gray

In Brief • En bref

Although it is unlikely that many Canadian physicians are relying on the Canada Pension Plan (CPP) for retirement security, a forecast that the program is in financial trouble has implications for the medical profession. One is the prospect of a generation of poverty-stricken seniors who could put undue stress on the health care system; another is that as the number of CPP disability claims continues to skyrocket, there may have to be more rigorous scrutiny of hard-to-define medical conditions.

Même s'il est peu probable que beaucoup de médecins canadiens comptent sur le Régime de pensions du Canada (RPC) pour assurer la sécurité de leur retraite, les difficultés financières prévues du programme auront des répercussions sur la profession médicale. D'abord, une génération de personnes âgées pauvres pourrait exercer des pressions indues sur le système de soins de santé. Deuxièmement, comme le nombre de demandes de prestations d'invalidité du RPC continue de grimper en flèche, il faudra peut-être examiner plus rigoureusement des affections médicales difficiles à définir.

There can be few Canadian physicians sufficiently shortsighted to rely on the Canada Pension Plan (CPP) for financial security during their own retirements. But recent apocalyptic headlines announcing that the CPP is going broke should make physicians anxious. Old age and poverty are two of the most significant determinants of population-health status, and a generation of poverty-stricken seniors would put health care services under considerable stress.

A headline in the Feb. 25 *Globe and Mail*, "Canada Pension Plan going broke", was the scariest. It was prompted by a report from the Office of the Superintendent of Financial Institutions, which warned that contribution rates are not keeping pace with benefits and the plan's reserve will be depleted in 2015.

How have the CPP and its sister, the Quebec Pension Plan, gone so far off the rails? The CPP is just one element in a complex of payments the federal government makes to elderly Canadians. Since 1969, retirees who have been in the workforce have qualified for CPP benefits, which are pegged at $713 a month this year. Retirees are also eligible for Old Age Security (OAS pays $387 a month), regardless of whether they were in the workforce. The OAS, however, is clawed back through the tax system from people with an annual income of more than $53 215. Low-income seniors also qualify for the Guaranteed Income Supplement (GIS, for singles, is $460 a month).

In addition to federal cheques, many elderly Canadians also receive benefits from private pension plans and their own registered retirement savings plans (RRSPs).

The CPP, established in 1966, is the only federal payment for which Canadians must pay premiums. Its problems arise because, unlike private pension plans, it is not fully funded. Instead, it is a pay-as-you-go system, and contributions from today's working Canadians (employers and employees) pay for the pensions of today's retirees. Private pension plans invest the contributions of today's workers to provide their pensions down the road.

The pay-as-you-go system was fine when workers far outnumbered CPP recipients. In 1993, an actuarial report forecast that the fund would build gradually to $112 billion in 2016, an amount representing about 1.65 years of projected expenditures. But with a shrinking workforce and an aging population, plan managers are now dipping into the surplus to fund current demands. This happened for the first time in 1993. For the current year, CPP expenditures for pensions and disability payments are expected to be $16.5 billion, while contributions are projected to yield only $11.4 billion.

Most of the difference will be made up by using $4.4 billion in interest earned by the CPP account

Charlotte Gray is a CMAJ *contributing editor.*

and by drawing down the account by $670 million. According to a report from the Office of the Superintendent of Financial Institutions, the plan's unfunded actuarial liability at the end of 1993 would have been $487.5 billion if it were run like a conventional plan.

The reasons for the CPP's slide into insolvency are simple, and hold implications for doctors. The first factor is a credit to our public health and medical services. Canadians are healthier than ever, and living longer. In 1961 the life expectancy of a 65-year-old Canadian was 13.5 years for men and 16.1 years for women. Today it is 15.7 years for men and 19.9 years for women. The increased longevity is coupled with changing demographics: the proportion of over-65s in the total population is expanding rapidly. Today we have about five potential workers for every retiree, but by 2030 there will be only 2.5 workers for each beneficiary. As Robert Brown, a professor of actuarial science at the University of Waterloo, has stated: "In 20 years, Canada is going to look like Florida today. I don't think there are enough golf courses here."

The second cause is the increasing number of Canadians below retirement age who are receiving CPP benefits. Canadians are entitled to start collecting their federal pensions at age 60. However, early retirees lose 6% a year for every year they are under 65 — a 60-year-old, for example, receives only 70% of the full amount until he or she dies. Despite this penalty, the number of early retirees has exploded. The option was first offered in 1987, when 124 000 Canadians retired early. By 1994, about 16% of all CPP payouts went to early retirees.

Particularly worrying to CPP actuaries is the growing number of disability claims. Under-65s can receive full pensions if they have doctors' certificates attesting to "severe" or "prolonged" disability. This year, the CPP is expected to pay out $3.2 billion in disability payments, an increase of 13% from 1994. There had already been a jump of 17% the previous year. Twenty-six years ago, the CPP designers never anticipated so many long-term disability pensions.

Physicians sign far fewer disability certificates in Western Canada than Eastern Canada. In British Columbia, 6.6% of CPP beneficiaries are disability claimants; in Ontario it's 9%; in Nova Scotia, it's 13.3%.

Part of the increase is due to new ailments such as chronic-fatigue syndrome, which are now showing up in disability claims. But regional variations in disability pensions reveal how elastic the criteria are. Of the total number of Canadians who are CPP beneficiaries, 8.5% are disability claimants. However, physicians sign far fewer disability certificates in Western Canada than Eastern Canada. In British Columbia, 6.6% of CPP beneficiaries are disability claimants; in Ontario it's 9%; in Nova Scotia, it's 13.3%.

Pension experts suggest that the variations are partly the result of restructuring in the manufacturing and service economy, and partly due to "creative" retirement policies by provincial governments and big business. John Jackson, a senior manager at KPMG Actuarial Benefits and Compensation Inc., pointed out recently that employers encourage employees to first apply for CPP disability benefits; if accepted, those benefits offset what their private insurer has to pay.

What will Ottawa do to shore up the Canada Pension Plan? It's no secret around Ottawa that Finance Minister Paul Martin is already looking into ways to cut retirement benefits. His department wanted to bring the axe down in the February budget, but Prime Minister Chrétien refused; he was concerned that the government was already taking on too many target groups, including welfare recipients, public broadcasters and medicare users. But officials are now examining options to decide how the next budget will tackle the issue. The options include:

- Raising the retirement age from 65 to 67. This is the solution already adopted by nations in a similar bind. The US has announced a shift to 67 by 2025; Sweden is shifting to 66 by 1997; in Japan, the retirement age of 63 for men end 60 for women will move to 65 by 2018.
- Raising the premiums. The maximum paid by workers last year was $806. To maintain the same level of benefits, the combined employer-employee premiums would have to rise to $1829 by 2016.
- Freezing the benefits, which are currently indexed to inflation.
- Stop provinces from pushing people with disabilities or welfare recipients in their 60s onto CPP disability rolls.
- Scrutinize disability claims more rigorously, especially those given on grounds of "stress" or other hard-to-define conditions.
- Ensure that federal benefits (CPP, as well as OAS and GIS) go only to the needy. This is a hard sell politically, since most Canadians would regard this as a breach of contract. Workers who have been contributing to pensions for two or three decades expect to get back at least what they have paid, regardless of whether they also have RRSPs or private plans.

Seniors are a powerful lobby and they will fight further cuts. They successfully derailed the Mulroney government's attempt to de-index pensions in 1985; after that, the Tories never touched pensions. The seniors argue that few older Canadians have large incomes; according to Statistics Canada, only 3.9% of those older than 65 have incomes of more than $50 000, and only 15.2% make between $25 000 and $50 000.

But social-policy experts such as the Caledon Institute's Ken Battle reply that elderly Canadians are getting wealthier all the time. The increasing number of women in the workforce means that more couples will retire with two pensions. Battle would prefer to see benefits for elderly Canadians rolled into a single pension, geared to low- and modest-income people. Canadians in higher-income brackets (including most physicians) have usually taken care of themselves through private plans and RRSPs.

The Chrétien government has done itself no favours by caving in to pressure from its own caucus on the touchy issue of MP pension reform. Despite an appeal from the prime minister before Christmas, Liberal MPs refused to go along with early proposals to roll back some of the benefits of their extremely rich pension scheme. In the end, they settled in the spring for a watered-down reform that still left them with some of the plushest pension provisions in the country.

Next year, if they ask elderly Canadians to swallow a pension cut, their own actions will undoubtedly be flung in their face. ■

Nov. 5–7, 1995: 9th Annual BC HIV/AIDS Conference: Focus on Drug Users (sponsored by Continuing Education in the Health Sciences, University of British Columbia, the BC Ministry of Health, the BC Centre for Excellence in HIV/AIDS and St. Paul's Hospital)

Vancouver

Elaine Liau, manager, Conference Services, Interprofessional Continuing Education, Continuing Education in the Health Sciences, University of British Columbia, 105–2194 Health Sciences Mall, Vancouver BC V6T 1Z3; tel 604 822-4965, fax 604 822-4835

Nov. 8–12, 1995: Roentgen Centenary Congress and the Hong Kong College of Radiologists 3rd Annual Scientific Meeting

Hong Kong

Secretary, Organizing Committee, Roentgen Centenary Congress, Hong Kong, Department of Diagnostic Radiology, Queen Mary Hospital, Hong Kong; tel 011 852 855-3692, fax 011 852 819-3591

Du 9 au 11 nov. 1995 : 2e conférence nationale sur l'asthme et l'éducation (organisée par l'Université Laval)

Québec

Date limite pour les résumés : le 30 juin 1995

Crédits de l'éducation médicale continue.

A. Les McDonald, directeur exécutif, Réseau canadien pour le traitement de l'asthme, 1607–6, Forest Laneway, Willowdale ON M2N 5X9; tél 416 224-9221, fax 416 224-9220

Nov. 9–11, 1995: 2nd National Conference on Asthma and Education (hosted by Université Laval)

Quebec City

Abstract deadline: June 30, 1995

Study credits available.

A. Les McDonald, executive director, Canadian Network for Asthma Care, 1607–6 Forest Laneway, Willowdale ON M2N 5X9; tel 416 224-9221, fax 416 224-9220

Nov. 13–14, 1995: From Hospital to Community: Working Together to Support Breastfeeding (sponsored by La Leche League Canada)

Ottawa

Agnes Vargha, 25 Bernier Terr., Kanata ON K2L 2V1; tel 613 592-2379, fax 613 599-7298

Nov. 15–17, 1995: 7th International Symposium: Caring for Survivors of Torture — Challenges for the Medical and Health Professions

Cape Town, South Africa

Official language: English

International Rehabilitation Council for Torture Victims, Borgergade 13, PO Box 2107, DK-1014 Copenhagen, Denmark; tel 011 45 33 76-0600, fax 011 45 33 76-0500

The Trauma Centre for Victims of Violence and Torture, Cowley House, 126 Chapel St., Cape Town 8001, South Africa; tel 011 27 21 45-7373, fax 011 27 21 462-3143

Feb. 4–7, 1996: 5th International Congress on Trace Elements in Medicine and Biology: Therapeutic Uses of Trace Elements (organized by the Société francophone d'étude et de recherche sur les éléments trace essentiels)

Méribel, France

Official languages: French and English

Arlette Alcaraz, Laboratoire de Biochimie C, CHRUG, BP 217 F-38043, Grenoble, Cedex 9, France; tel 011 33 76 76-5484, fax 011 33 76 76-5664

Apr. 16–18, 1996: Community and Hospital Infection Control Association (Canada) National Education Conference

Vancouver

Mrs. Gerry Hansen, conference planner, PO Box 46125, RPO Westdale, Winnipeg MB R3R 3S3; tel 204 895-0595, fax 204 895-9595

May 15–18, 1996: Canadian Association of Speech-Language Pathologists and Audiologists Annual Conference

Kelowna, BC

Abstract deadline: Oct. 16, 1995

Nora Woodhurst, CASLPA Conference '96, Shuswap School District no. 89, 220 Shuswap St., PO Box 129, Salmon Arm BC V1E 4N2; tel 604 832-9198, fax 604 832-9428

May 19–24, 1996: 9th International Symposium on Trace Elements in Man and Animals (TEMA-9)

Banff, Alta.

Abstract deadline: Jan. 15, 1996

Registration: The Banff Centre for Conferences, PO Box 1020, Stn. 11, Banff AB T0L 0C0; tel 403 762-6308, fax 403 762-6388, RESERVATIONS@BANFFCENTRE.AB.CA

Secretariat: Dr. Mary L'Abbé, Nutrition Research, Health Canada, Ottawa ON K1A 0L2; tel 613 957-0924, fax 613 941-6182; MLABBE@HPB.HWC.CA

Aug. 17–22, 1996: 8th World Congress on Pain

Vancouver

Abstract deadline: Jan. 15, 1996

International Association for the Study of Pain, 306–909 NE 43rd St., Seattle WA 98105; tel 206 547-6409, fax 206 547-1703, IASP@locke.hs.washington.edu